Rod R. Blagojevich, Governor
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Illinois Department of Public Aid

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May 23, 2003

Dennis Smith, Director
Center for Medicaid and State Operations
Centers for Medicare and Medicaid Services
7500 Security Blvd.
S5-26-12
Baltimore, MD 21244-1850

Dear Mr. Smith:

The Illinois Department of Public Aid received a set of questions from your staff related to Illinois' request of March 14, 2003, to expand our SeniorCare waiver program to 250% of FPL. Enclosed you will find a document that sets forth our answers to each question and supplies the requested data.

This document identifies the large number of seniors with incomes between 200% and 250% of FPL who spend down to Medicaid and the very significant cost to the Medicaid program of serving those individuals. The data also suggests that a drug benefit for these individuals would be particularly effective at improving health outcomes and, thus, keeping them from spending down to Medicaid and from becoming institutionalized.

Illinois is confident that the enclosed document demonstrates the nexus between this population and the Medicaid program that CMS has indicated it wants see in order to authorize the requested expansion. In the continued absence of a Medicare drug benefit, we need to seize this opportunity to provide coverage to this population most vulnerable to the high cost of prescription medications. Without a comprehensive drug benefit, the effectiveness of the other services covered by Medicare is undermined, leaving this population no hope but institutionalization to meet their medical needs.

Should you have any further questions, please do not hesitate to contact my staff, who have been working closely with your staff on this groundbreaking waiver from the beginning.

Sincerely,

/s/

Barry S. Maram
Director

cc: DHHS Secretary Tommy Thompson
Tammi Hessen
Cheryl Harris

Illinois Department of Public Aid

SeniorCare Waiver Expansion

Additional Information Prepared For The Centers For Medicare and Medicaid Services

May, 2003

Overview

The Illinois Department of Public Aid, in March of 2003, requested to amend its SeniorCare expansion demonstration waiver. The State seeks to increase the eligibility threshold from 200% of the federal poverty level (FPL) to 250% FPL. The Centers for Medicare and Medicaid Services responded with a request for detailed information about the potentially affected population and its nexus to the Medicaid program.

This paper answers those questions and, in the process, demonstrates the strong nexus between individuals in this target waiver population and the Medicaid program. Specifically, Illinoisans in the income strata affected by this potential expansion currently access Medicaid at a significant rate. A drug benefit, if extended to this population will result in improved health outcomes, leading to substantially lowered incidence of institutionalization thus promoting community living – consistent with the President's "Freedom Initiative" and Executive Order 13217 and, reduced Medicaid costs for both the State and federal government.

Responses to CMS Questions

1A) Overall how many aged individuals between 200% and 250% FPL is the state aware of that spend down to Medicaid?

A. In FY02, *5,467* aged individuals having income between 200% and 250% FPL received Medicaid benefits. All of these individuals first had to "spenddown" to meet eligibility requirements.

1B) Of those aged individuals between 200% - 250% FPL who spent down, how many were enrolled in the state only funded pharmacy program?

A. The Department was able to match up very few Medicaid individuals who were enrolled in the current state pharmacy program. The most likely reason that these individuals who spent down are not utilizing the state only program is that it offers a limited formulary covering only a few disease states and, thus, holds little value for clients who require a more comprehensive drug benefit.

1C) Is the state aware of the health care costs (pharmaceutical/other) that spurred these individuals to spenddown?

and,

1D) Did any of the aged individuals who spent down require institutional-level care? If so how many?

A. The vast majority of costs for these individuals were associated with institutionalized care. Nursing facility costs comprised nearly 90% of all costs. 4,811 individuals out of the overall group of 5,467 accessed institutional (nursing facility) care during the year. Pharmacy and hospitalization costs together accounted for about 10% of total costs. Other costs were negligible. **See Table – next page.**

Responses to CMS Questions – Continued
(Costs)

Medicaid Spending For Individuals between 200% - 250% FPL

Service Group	CY 2002 Annual Amount
Inpatient Hospital	$ 2,768,935
Long-Term-Care	$ 95,209,968
Pharmacy	$ 10,309,897
Other Medical	$ 4,309,866
Total Costs	$ 112,598,666
Client Payments	$ 57,464,009
Total Medicaid-funded costs	**$ 55,134,658**

This Table details the breakdown in costs for this population during the previous year.

Inflating the costs forward to the four remaining years in the demonstration period yields the following:

Medicaid Spending For Individuals between 200% - 250% FPL

Service Group	Est. FY 2004 Payments	Est. FY 2005 Payments	Est. FY 2006 Payments	Est. FY 2007 Payments	Total 4 year Payments
Inpatient Hospital	$ 3,205,042	$ 3,541,572	$ 3,913,437	$ 4,324,348	$ 14,984,399
Long-Term-Care	$110,205,537	$121,777,119	$134,563,716	$148,692,906	$515,239,279
Pharmacy	$ 11,933,706	$ 13,186,745	$ 14,571,354	$ 16,101,346	$ 55,793,151
Other Medical	$ 4,988,670	$ 5,512,480	$ 6,091,291	$ 6,730,876	$ 23,323,318
Total Costs	$130,332,956	$144,017,916	$159,139,798	$175,849,476	$609,340,147
Client Payments	$ 59,187,929	$ 60,371,688	$ 61,579,121	$ 62,810,704	$243,949,441
Total Medicaid-funded costs	**$ 71,145,027**	**$ 83,646,229**	**$ 97,560,676**	**$113,038,773**	**$365,390,705**

These 200% - 250% FPL individuals generate substantial Medicaid cost

These numbers amply illustrate how these modest-incomed individuals, absent intervening care, will represent a significant – and accelerating – drain on scarce financial resources to both the State and federal government.

Responses to CMS Questions – Continued
(Demonstration Waiver Expansion)

2) How many aged individuals are currently enrolled in the state funded pharmacy program between 200% and 250% FPL?

A. There are about 38,000 seniors currently enrolled in this program.

3) How many individuals does the state expect to enroll in the amended portion of the demonstration? Is there any reason that current enrollees in the aged portion of the state-only program would not be eligible for the demonstration?

A. The Department, if granted approval for this expansion, expects to enroll an additional 48,000 individuals into the SeniorCare program. The 5,000 individuals whose costs are detailed on the previous page would be a subset of this overall group.

The Department anticipates that all seniors currently in the state-only funded program would be eligible for SeniorCare.

4) Compare the current annual costs for the aged portion of the state only funded pharmacy program to those estimated under the demonstration.

A. Current year cost for seniors in the state only funded program is estimated to be $47 million. In comparison, estimated annual costs for seniors in the expansion request is $78 million.

5) Compare the current per member per month (PMPM) cost in the current state only funded pharmacy program for aged individuals to that expected under the demonstration expansion, and to the current PMPM for demonstration enrollees.

A. The PMPM cost for clients in the limited state-only funded pharmacy program is slightly more than $100. In comparison, the PMPM for expected clients in the demonstration expansion is expected to be similar to the PMPM of the current demonstration waiver (SeniorCare) enrollees, which is close to $150.

Responses to CMS Questions – Continued
(Budget Neutrality)

6) Please provide a summary of the current cost accumulation of the demonstration program, the estimated costs for the demonstration expansion, and how both of these relate to the state's assessment of the current status of budget neutrality.

A. The Department estimates that total costs for SeniorCare will be $197 million this fiscal year. Further, as previously outlined, annual costs associated with the proposed expansion population are estimated at $78 million.

Budget Neutrality for the current waiver is predicated on the assumption – backed by numerous studies - that the extension of a drug benefit will lead to improved health outcomes for seniors allowing them to remain in community settings, thereby, reducing the need for institutionalized care and with it the substantial cost borne by the Medicaid program. In short, the State's budget neutrality premise is that total Medicaid costs for seniors will be lower with the provision of the drug benefit than without it, as costly institutionalized care is reduced.

To that end, first year total costs for the current waiver are coming in comfortably below the year one target set by CMS – thus far validating the State's budget neutrality premise. Additional costs associated with the expansion could be included without endangering this threshold. In fact, Illinois, believes that overall costs will actually be reduced with the granting of this expansion request.

Conclusion

This paper demonstrates the nexus between a target population (seniors 200% - 250% FPL) and the Medicaid program. Specifically, it details the substantial Medicaid costs these individuals currently generate and will increasing generate into the future absent the extension of a drug benefit.

Therefore, as a logical extension of our budget neutrality thesis that extending drug benefits to previously uninsured populations results in a substantially lowered incidence of institutionalization, the Department is requesting that CMS grant our expansion request to extend drug benefits to this population.

This logical step will improve health outcomes for these individuals. Further, the ability to remain in the home, given access to a drug benefit, is disproportionately higher for these modest-incomed individuals compared to those more impoverished individuals currently in the demonstration waiver.

In short, the budget neutrality premise is even stronger for this target population than for the population in the existing waiver. Extending the drug benefit to this, otherwise, high Medicaid cost population is a sound move for CMS.

Additionally, granting such an expansion has the potential to help seniors avoid institutionalization. This would be a further step in promoting full access to community life, helping seniors remain in their homes, consistent with the President's "Freedom Initiative."